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ABSTRACT

The Treuhandanstalt was given the task of privatizing former German Democratic Republic-owned enterprises and restructuring them so that they could survive and function in a market economy. The enormity of this task entailed personnel reductions as high as 10-20% in many cases and many qualitative changes, including the following: alterations to organizational structures, determination of new competition-oriented ranges of products, modification of production techniques, reduction of the vertical range of management, improvement in products' duality, identification of new procurement markets, creation of an optimal cost structure, and acquisition of new markets. The government-sponsored job training and job creation strategies that were initially attempted to accomplish the transition to private enterprises functioning in a market economy proved unsuccessful. Instead, the Treuhand has called upon enterprises to assume responsibility for developing a qualified staff and has been offering a management training program since 1993. At present, 30 managerial staff from 15 former East German companies are completing work experience programs in West German firms. The program, which offers a mixture of practical and theoretical training, has proved successful and has been recommended for managerial staff in other East and Central European countries. (MN)

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Treuhand: qualification is the employers' responsibility

Consequences for East and Central European states

The change-over from a planned economic system to decentralized market structures represents an extremely complex challenge. The work of the *Treuhandanstalt*, which was given the task of privatizing former GDR state-owned enterprises, played a central role in the new *Bundesländer* (federal states). Horst Föhr describes below how the change-over was organized in *Treuhand* enterprises and the importance of qualification in this context.

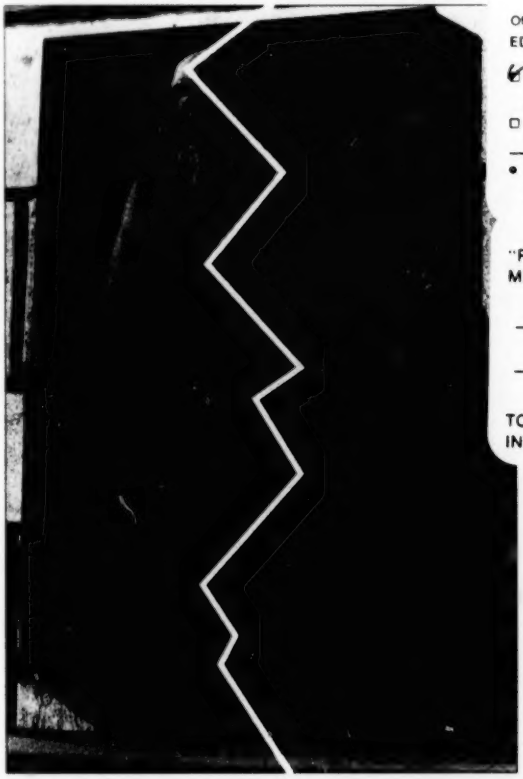
1. With regard to the question as to what the *Treuhand's* task was, one must first of all recall the initial situation in 1990: totally unprepared, East German enterprises were virtually exposed overnight to the western market economy and thus to competition hitherto unknown in this form and strength. In the years 1991/92, they lost between 60 to 90% of their turnover, mainly in former Comecon countries. Over and above this, most of their products were hardly saleable on Western markets.

Consequently, in order to achieve a point of departure capable of survival, enterprises had to be cut back to operationally purposeful dimensions. This meant shutting down those business sectors and production sites which had nothing to do with the core activity proper. The essential increase in productivity called for reduction of personnel, in some cases up to 10-20% of the original workforce.

Apart from these quantitative changes, fundamental qualitative improvements were also necessary:

- alterations to the organizational structures (particularly the reduction in excessive overheads),
- determination of a new competition-oriented range of products,
- modified production techniques (customer orientation),
- reduction of vertical range of manufacture,
- improvement in duality of products,
- search for new procurement markets,
- creation in general of an optimal cost structure and, first and foremost,
- capturing new markets by enhancing sales know-how.

This all had to happen simultaneously, quickly and in difficult economic and global competition conditions. These processes have still not been completed because East German enterprises must further improve their competitiveness. Since, in the face of increasing wage levels in East Germany, internationally competitive products can only be manufactured in efficient structures with a highly qualified workforce, however, qualification of staff can simultaneously help enhance firms' competitiveness and the quality of East Germany as an industrial and commercial location.



Following the disintegration of the Soviet Union, the countries of Eastern Europe have been caught up in the maelstrom of international competition.

Photo: W. Grigutsch

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Qualification not only means specialized knowledge. It also implies creativeness, correlated thought and the ability to work in a team.

Photo: M. Vollmar

2. Qualification, though, can only commence at the prevailing company situation which, however, is changing step by step in many cases and has still not adequately stabilized itself. In view of the lack of productivity of jobs, personnel development had first to solve a selection problem which East German enterprises have still not fully concluded. The actual choice of staff takes place via social plans which, in the wake of extensive and rapid staff reduction, cannot always guarantee that the firms are able to retain their high performers which, in turn, complicates the initial situation with regard to the build-up of staff potential.

In Central and Eastern Europe, on the other hand, we have other framework conditions: in these countries, as a rule, there is more time for the transformation process to enable them to protect themselves temporarily against international competition. What is more, there, the basic conditions developed for mature market economies are not applicable and, in the case of radical changes, might even tend to be restrictive.

Thus, even there, the selection process creates a dual responsibility: first, for the staff remaining in the firm who have to be retrained for new company structures and processes, second, socially compatible solutions have to be found for employees made redundant – e.g. work procurement and qualification.

3. At the beginning, in a move to avoid wide unemployment, for the most part use was made initially in the new *Bundesländer* of the special provisions for short-time work enshrined in the Employment Promotion Act (AFG). The contribution to active structural adjustment by means of short-time work was very limited since the opportunity was hardly ever taken to use this time to include qualification measures in short-time work (only an average of 5% of emloyees in the years 1991/92). We cannot recommend the use of this instrument, even if it is an easy solution. It is not very creative or efficient.

In addition, job-creation measures (ABM) – as a bridging instrument for the employment market – have been financed with public funds since 1991. They provided opportunities of work for former staff of *Treuhand* enterprises within the framework of the clearance and redevelopment of company sites. As a rule, however, these job-creation measures were too far removed from the labour market to make possible a subsequent transition to the employment market. In general, the employment conditions were not competition-oriented enough, full remuneration in these projects kindled no incentive to change over to a regular job.

The new § 249h contained in the Employment Promotion Act, on the other hand, provides the basic requirements for organizational forms of publicly financed employment which approximate employment organization on the labour market in greater measure. Here, too, projects are promoted which, by means of redevelopment measures, are preparing the ground for new investments. The main advantage, compared with job-creation measures,

is the fact that this instrument promotes competitive structures, i.e. from 1994, competitive tenders will be invited for contract orders. Remuneration amounts to maximum 90% of the union wage rate, or work hours and pay are reduced to 80%.

The measures are being financed by *Treuhand*, the *Länder* and the Federal Labour Office. By the end of 1993, some 50,000 former employees from *Treuhand* firms had taken part in these measures and were simultaneously further qualified during up to 20% of their worktime.

In East and Central European states it may be purposeful to leave those departments, which are to be hived off from the central sector, intact within the company since there are possibly no structures outside the firm to absorb them. Even so, the hiving off in the organization should be undertaken as an "as-if privatization" to avoid structural deficits. Similar to our employment and qualification companies, one of these sectors could absorb employees who have become redundant in the production areas and engage them in essential work in public interest, e.g. in the infrastructural sector or qualification measures.

The better skilled personnel are trained, the better the goods they produce.

Photo. M. Vollmer

4. The employees remaining in the firm are, first and foremost, those on whose shoulders further development within the company itself will rest. This means they are of crucial importance for the transformation process.

Staff development in East Germany had to begin with a basic workforce which, while technically well-qualified and open to continued training as a rule (at 42%, the number of college and university graduates was roughly twice that in the old *Bundesländer*), had not been given the opportunity for decades to act on their own responsibility and in a risk-oriented manner. The scope for action and development was heavily restricted by planned economy targets. True, this promoted personal ingenuity in the formal fulfilment of the plan, but not the assumption of entrepreneurial functions on personal responsibility which also call for creativeness, correlated thought processes, ability to work in a team and taking risks.

This had resulted in personal structures which could not be changed overnight. We know that the removal of impediments to innovation and the necessary modernization of the economy in the new *Länder* cannot be accomplished by the mere implementation of new (western) structures and processes or simply taking over new technologies. Of equal importance – but which only become effective medium- or long-term as a rule – is the building up and promotion of qualification potential, in conjunction with changed ways of thinking and acting. This calls for particular effort in the qualification and staff development sectors.

In-plant qualification and personnel development in relatively stable conditions in an economically stable environment are simple: the various necessary changes in organization and technology derive from the company's objectives.

Practice in the new *Bundesländer* has offered a different picture thus far: specialist qualifications are needed before the corresponding measures can be implemented. Managerial skills are scarce. Because of the enormous efforts involved in staff reduction, there is not enough time for qualification. Technology and organization are uncertain since the company's objectives constantly change during transformation. In such conditions, it is difficult to talk of the importance of human capital, strategic staff development and forward-looking qualification. But that is just what East German enterprises need in growing measure! In this way, staff development assumes a creative character and is part of company strategy.

5. The qualification of the staff in *Treuhand* enterprises had to take place under considerable time and competition pressure. In some cases, productivity in enterprises was less than 30% of competitors in the west. This resulted, in the initial stages, in attaching great importance to staff reduction which often caused sight to be lost of

the real structures which needed to be developed (sales, controlling, qualitative personnel management) in enterprises. As a result, age structures have been created which need to be corrected because there tends to be a lack of older, exprienced staff, on the one hand, and young, dynamic personnel on the other. In retrospect, clearer statements of company objectives, opportunities and prospects in the core sectors concerned would have been helpful, encouraging incentive during the personnel reduction process.

Despite all uncertainties regarding future company development, the training of personnel must be undertaken systematically and more professionally and go beyond the short-term organization of training measures. Advisers on the spot can help develop the instruments. Application should be preferably undertaken by in-plant staff (learning by doing).

Simply transferring concepts from major West German to East German enterprises doesn't help because their specific circumstances vary greatly and make on-the-spot tackling of problems necessary.

6. Despite all adversities, the *Treuhand* has called on enterprises to seize the initiative with regard to the qualification of staff. It has also supported corresponding measures. This, it should be pointed out, only became possible to a greater degree as the number of enterprises shrank.

As the number of opportunities of simultaneous active redevelopment by the *Treuhandanstalt* grows, greater influence can be exerted on the qualification and personnel development in the participating enterprises.

A management training programme – initiated and organized by the *Treuhand* – has been running since early 1993. At the present time, 30 managerial staff from 15 East German companies are completing work-experience courses in West German firms. This form of continued training has meanwhile proved particularly effective, even if we learned in this connection that long-term measures – lasting just over six months, for example – and frequent absence from one's place of work, result in capacity problems in the home firm and hamper the readiness to participate in measures of this nature. On the other hand, what has proved successful is a mixture of practical and theoretical phases of one to two weeks duration in their own firms, tailored to individual requirements, spread over a period of three months at the most.

Programmes of this nature can be particularly recommended for East European managerial staff. This practice-oriented insight into the management of a western firm can achieve greater results than countless seminars and counselling.

Over and above this, a pilot project for the intensification of personnel development in the *Treuhand's* associate enterprises has been launched: there, where more or less stable entrepreneurial concepts exist, staff development concepts, derived from company objectives, are drawn up and converted into a series of measures for some of the *Treuhand* enterprises, in cooperation with the managers and personnel officers.

7. In East and Central European countries, privatization is not progressing very quickly in some cases, obliging enterprises to organize their selection process more intensively. The selection of the right employees for the core business can be of decisive importance for the company's future development in general.

On the other hand, all opportunities should be taken to encourage the idea of privatization within the enterprise itself. Competiton should be organized inside the enterprise – between departments, operational sectors or profit centres. Remuneration in line with performance and the opportunity to move to more efficient sectors within the company should accompany personnel-development measures.

The basic requirements differ greatly in the various East and Central European countries. There is no patent recipe. The experiences we have gained in East Germany cannot be faithfully transferred down to the last detail. Points of reference do emerge in many sectors, however, such as in the qualification sector. In brief, these are as follows:

- Taking mental differences into account which have developed over past decades in a centrally administrated economy (development of personality)
- Commencement of personnel development and qualification at an early restructuring stage (selection, key qualification)
- Systematic qualification measures in the current deficit sectors; marketing, sales, accounts, controlling, legal department, personnel management, organization
- concomitant qualification (training on the job) instead of longer-term seminars or training measures
- exchange programmes with western enterprises
- separation of in-plant qualification from retraining measures which are carried out in a special unit removed from the enterprise's core activity (qualification companies). ❐

Horst Föhr
(Quem-Bulletin)